NASA FEDERAL CREDIT UNION

February 21, 2012

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Comments on NCUA Proposed Rulemaking for Parts 701 and 741, Loan Participation proposal, proposed Dec. 22, 2011

Ms. Mary Rupp:

Thank you for the opportunity to comment on NCUA's Loan Participation Proposal. As this regulation would affect all credit unions, NASA Federal Credit Union appreciates the importance the NCUA places on the comment period and the serious consideration it gives to those comments received. While not nearly enough credit unions will take advantage of this process, it is our hope that the NCUA will view the comments of those who do participate as a representative sampling of the credit union industry at large. This is a regulatory change that impacts all credit unions and some may not even realize the impact it will have on their credit union.

Although some of the proposed changes to this regulation are acceptable to NASA Federal Credit Union, others create significant obstacles to what our credit union has seen as tried and true business practices related to loan participations. NASA Federal's primary concerns are related to proposed Section 701.22(b)(5)(ii) that sets a maximum limit on participations that a credit union may purchase from one credit union as an amount equal to 25% of the credit union's net worth. We believe that this is an arbitrary number that has no correlation to the success or failure of a loan participation relationship or the loan performance.

NASA Federal Credit Union has been both a seller and purchaser of loan participations over the years. We currently have several long-standing relationships with other credit unions for participations. Unfortunately, if this regulation passes with the 25% limitation, we will have to cease participations with such credit unions. Given the success of these relationships, this seems to be an unintended consequence of the proposed regulation. Further, these participation loans have not, as the NCUA suggests, had any increase in default rates over our own historical default rate for similar type loans.

We would suggest the proposed limitation of Section 701.22(b)(5)(ii) be deleted. The credit union's loan concentration risk policy would assure a credit union does not participate in loans that would result in exceeding the self-imposed limits set forth in such polices. If the NCUA does not feel it is clear that the loan participations purchased would be included in the totals set forth in a credit union's loan concentration risk policy, certainly this could be affirmatively stated in the regulation. We feel that an arbitrary limitation related to participations is not an effective means of risk mitigation. Rather, the credit union's own carefully considered loan concentration risk policy is better tailored to the relative credit union and therefore intrinsically more likely to minimize the impact of loss.

If the 25% cap must remain, we would request that a waiver process be permitted to allow for differing response times among the various regions. Possibly, a notification process would suffice. The credit union would give notice to its regional director prior to entering into a loan participation that would exceed the 25%. If the Regional Director, after confirmation of receipt, does not object to exceeding such limitation, the credit union could proceed with the loan participation. In this option, the NCUA would detail the information to be specified in such notice, including confirmation with consistency of all other elements of the regulation. We ask that the NCUA consider the impact of any waiver option and offer the shortest response time from the Regional Directors the NCUA expects the directors could feasibly meet. We would also suggest that the NCUA specifically exclude participations with other credit unions that are common owners of a CUSO from the limitation if it remains.

Another concern of NASA Federal Credit Union is the proposed requirement of Section 701.22(b)(5)(ii) that a credit union have the same underwriting standards when purchasing a participation interest as it does when originating such loans. While we recognize that a credit union would want to again perform ample due diligence and cautiously engage in such participations, the risk concentration related to participating in such loans with different underwriting standards may make sense for the credit union. The unwanted consequence of this provision may be to lower underwriting standards to meet a lower common denominator. Perhaps Section 701.22(b)(5)(i) could specify the underwriting standards would be at a minimum *similar* to those the credit union uses for originating similar loans itself.

Upon thorough review of the Loan Participation Proposal, NASA Federal believes that many of the concerns the NCUA has may be related to due diligence. We believe that a more helpful tool for credit unions would be regulatory guidance specifying due diligence and best practices related to entering into loan participations. Further, we question whether the NCUA has performed research related to the increased default rates for loans that are participated and analyzed why the increase in default rates has occurred. Due diligence guidance and this type of analytical information related to loan participations could assist credit unions in making thoughtful and considerate decisions in its purchase of loan participations. This is the type of assistance our credit union would welcome from the NCUA.

Loan participations are longstanding tools used by credit unions. In most cases, they have been used successfully. It would be a disservice to the credit union industry, as a whole, to unnecessarily hinder the usefulness these tools can provide to credit unions. It would be especially disappointing to see a regulation implemented that yet again places credit unions at a significant disadvantage from other financial institutions in the marketplace. While a loan participation should not be entered into without the proper due diligence, arbitrary limitations do not seem to accomplish the NCUA's goal of mitigating risks related to loan participations.

Thank you again for the opportunity to comment on the Loan Participation Proposal and we hope that we have provided constructive comments related to the practical impact of this proposed regulation. We further ask that the NCUA consider modifying the referenced sections to avoid the negative impact anticipated with the regulation as proposed.

Sincerely,

D. M. Allman

Doug Allman
President and CEO
NASA Federal Credit Union